

Auditor-General of South Africa

Greater Kokstad Municipality - audit  
report 2016-17

# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on Greater Kokstad Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Greater Kokstad Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Greater Kokstad Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Material impairments

7. As disclosed in note 3 to the financial statements, material impairments of R22,81 million (2015-16: R28,90 million) were incurred as a result of an annual review of the recoverability of receivables from exchange and non-exchange transactions.

## Material under spending of the capital budget

8. As disclosed in the statement of comparison of budgeted and actual amounts, the municipality had materially underspent its capital budget by R 28,37 million. This was mainly due to the capital funding not being received and the late implementation of construction projects.

## Other matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

## Responsibilities of the accounting officer responsible for the financial statements

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA, DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the Greater Kokstad Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the intention is to liquidate the municipality or cease operations, or there is no realistic alternative but to do so.

## Auditor-general's responsibilities for the audit of the financial statements

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## **Introduction and scope**

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development objectives presented in the annual performance report of the municipality for the year ended 30 June 2017:

<b>Development objectives</b>	<b>Pages in the annual performance report</b>
Development objective - ensure provision, proper management and maintenance of existing infrastructure	x – x
Development objective - basic services to communities in a sustainable manner	x – x
Development objective - development of viable alternative energy generation	x – x

18. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

19. The material findings in respect of the usefulness and reliability of the selected development objectives are as follows:

**Development objective - to ensure provision of basic services to communities in a sustainable manner**

**Performance indicator not measurable and reliable**

Indicator - Percentage of law enforcement and patrols conducted

20. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target - 90% of law enforcement and patrols conducted per quarter in 2016/17 FY. This was due to a lack of technical indicator descriptions and documented systems descriptions that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information (FMPPPI). I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 90% of law enforcement and patrols conducted per quarter.

**Reported achievement not reliable**

Indicator - Town streets cleaned daily and residential streets to be cleaned at least once a week by 30 June 2017

21. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of town streets cleaned daily and residential streets to be cleaned at least once a week by 30 June 2017. This was due to a lack of a proper performance management system and process to maintain records to enable the reliable reporting on the achievement of the target. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of all streets were cleaned weekly and the CBD was cleaned daily including town streets.

**Other matters**

22. I draw attention to the matters below.

**Achievement of planned targets**

23. The annual performance report on page x to x includes information on the achievement of planned targets for the year and explanations provided for the underachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 20 and 21 of this report.

**Adjustment of material misstatements**

24. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the development objective: to ensure provision of basic services to communities in a

sustainable manner. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## **Report on audit of compliance with legislation**

### **Introduction and scope**

25. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
26. The material findings on compliance with specific matters in key legislations are as follows:

### **Annual financial statements**

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, statement of comparison of budget and actual amounts and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### **Procurement and contract management**

28. The performance of contractors was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.

### **Expenditure management**

29. Effective steps were not taken to prevent fruitless and wasteful expenditure of R207 999 disclosed in note 32 to the annual financial statements, as required by section 62(1)(d) of the MFMA. Most of the disclosed fruitless and wasteful expenditure was caused by interest and penalties on overdue accounts.
30. Effective steps were not taken to prevent irregular expenditure amounting of R10,91 million disclosed in note 41 to the annual financial statements, as required by section 62(1)(d) of the MFMA. Most of the disclosed irregular expenditure was caused by incorrect application of the requirements of regulation 32 of the Municipal Supply Chain Management Regulations, 2005.

### **Consequence management**

31. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.



## Other information

32. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the mayor's foreword, accounting officer's report and the audit committee's report. The other information does not include the financial statements, the auditor's report and the selected development objectives presented in the annual performance report that has been specifically reported in the auditor's report.
33. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
34. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
35. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Internal control deficiencies

36. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon.
37. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

## Leadership

38. Senior management did not adequately oversee the planning of performance information, which included credible and reliable performance reporting and compliance with key legislation.

## Financial management

39. A checklist to monitor compliance with legislation relating to procurement and contract management, expenditure management and consequence management was either not developed or updated by senior management to include all key legislation requirements.

*Auditor-General*

Pietermaritzburg

30 November 2017



AUDITOR-GENERAL  
SOUTH AFRICA

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## **Annexure – Auditor-general's responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected development objectives and on the municipality's compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Greater Kokstad Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.